

DTE Technical Conference

June 20th, 2005

Comments of National Grid



National Grid

Laddered Portfolio & Renewable Resources

- ◆ **National Grid's views remain as per our comments on DTE 04-115, namely**
 - **Current procurement policy is operating well as a utility sourced option for small customers**
 - **Mass. Electric opposes extending the term of procurement contracts beyond twelve months (whether for renewable resources or non-renewable)**
 - Longer term contracts carry additional risks/costs due to uncertainty surrounding the quantity of load to be served, and potential for market rule changes
 - A regulatory system which required Utilities to enter into long term contracts and also imposed the ISO's LICAP mechanism would transfer risks back from generators to customers and in doing so afford a pseudo-regulated income stream to competitive generators. Such a move would hold the potential for customers being burdened with further stranded costs, and is contrary to the objectives of deregulation
 - **A laddering approach for Default Service may inhibit the development of the competitive market for Small Customers**
 - by reducing the connection between Default Service prices and market prices without necessarily providing significantly more stable retail prices than the existing procurement approach.
 - **Mass Electric renewable proposal: suppliers/wholesalers (NOT distribution companies) could reduce alternative compliance payments by signing long term renewable contracts**
 - ◆ **Now is the time to consider alternative approaches which facilitate competition to the benefit of customers**
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Expanded Choice For Smaller Customers

- ◆ **As part of the New York PSC competitive market docket, National Grid has made proposals which are currently being considered and developed through a collaborative process**
- ◆ **We believe that some concepts contained within our New York proposals are potentially applicable within Massachusetts**
 - Fixed term auction for large customers
 - Power Switch style program for small customers
 - Purchase of supplier receivables which underpins both of these programs
- **Details specific to Massachusetts need to be worked out**
- ◆ **National Grid has held preliminary discussions with suppliers and other stakeholders and is in the process of obtaining customer input**
 - **Suppliers have varying degrees of support for all aspects of the proposed program, in particular for purchase of receivables and power switch**
 - **Mass. Electric is willing to make a filing for a pilot program**

“Power Switch*” Style Program

- ◆ **Would be based on successful Orange and Rockland program (achieved 30% residential migration)**
- ◆ **Several suppliers would agree to provide an initial % discount to Mass. Electric Basic Service price for residential/ G-1 customers**
- ◆ **Customers opt in and would be switched to the supplier, customers free to return to Basic Service at any point**
- ◆ **Supplier would directly contract with customer for service beyond initial two months, or issue a drop notice (else customer remains on the discounted rate)**

* A Mass. Electric program name would be applied

The Purchase of Receivables ("PoR") Program

- ◆ **A PoR program in support of a Power Switch**
 - **Bad Debt costs have been identified by customer class as part of DTE 03-88E**
 - The PoR discount would reflect the bad debt percentage attributable to each customer class and applied to those who are in receipt of combined billing
 - **PoR Discount would be calculated using net charge-offs and the principles established by Mass. Electric in DTE 03-88E and converted to a percentage of commodity revenue**
 - Suppliers would have a twelve month period of known bad debt costs
 - Each year Mass. Electric would establish a new discount rate and incorporate the over or under recovery of net charge-offs from the previous 12 month period
 - **Program would apply to all receivables of participating competitive suppliers: consistent with "class based" PoR discount factor and precludes "selection" or "gaming" abuses**
 - Suppliers may elect to use dual billing, but their customer receivables for that customer class would not be eligible for the PoR program
 - **MECo continues to provide customer service and billing for all PoR and MECO commodity customers**
- ◆ **The PoR program would also support proposed large C&I customer program to outsource commodity provision**

PoR Program Benefits

- ◆ **Would allow customers to participate in the competitive market without hindrance of their credit history**
 - Avoids redlining
- ◆ **Would afford an opportunity for suppliers to gain scale economically and without needing to add risk premiums for bad debt**
 - Should lead to increased competition and price pressure as smaller customers will have more options than today
- ◆ **Retains existing customer protections**
 - Smaller customers continue to have the choice of remaining on MECo provided Basic Service
- ◆ **The same benefits would also apply to the PoR program supporting the proposed large C&I auction**